QUESTIONS & ANSWERS ON THE PRESIDENT'S BUDGET

Q: **<u>What happened to the surplus?</u>**

A: The single biggest factor in the change in the surplus projections is the recession. For 2002, a weaker economy accounted for 66% of the erosion of the surplus, additional spending was responsible for 20% of the decline. The tax cut comes in a distant third at 14% for FY 2002 – many economists, including Federal Reserve Chairman Greenspan, say the tax cut was critical to fighting the recession. The 2002 deficit is expected to be 1% of the GDP -- significantly lower than the deficits of 3-6% during previous recessions in the last 40 years.

Q: **<u>Did the tax cut cause the erosion of the surplus?</u>**

A: The weaker economy and additional spending accounted for 86% of the erosion of the surplus. What the tax cut has done is boost economic growth, keeping the economy from slipping even further into recession. The tax cut put more money into people's pockets when they needed it most. Federal Reserve Chairman Greenspan recently testified before Congress that the tax cut had helped our economy grow and begin to recover from the recession. <u>The best way to guarantee future surpluses is to guarantee future economic growth.</u> And the President's tax cuts are leading to economic growth.

Q: **<u>How has the tax cut effected the economy?</u>**

A: Last year's bipartisan tax relief package had a positive effect on economic growth, as Chairman Greenspan has noted. On 1/24, Greenspan was asked, "Do you think that the passage of the tax cut at the end of May in the Congress had any role at all, potentially, in shortening the duration of this recession or mitigating the impact of this recession?" He replied, "I think it did, Senator. I think that the evidence of consumer markets in August and even early September were that there was some impact of that." Before September 11th, retail sales picked up in July and August. Steep declines in non-defense capital goods orders appeared to have ended in August and the National Association of Purchasing Managers Index of manufacturing activity improved sharply. Of course, the events of September 11th sent a shock wave through our economy. However, the tax relief package continued to be helpful in subsequent months as well, boosting consumption and preventing the recession from deepening.

Q: **<u>What caused the recession and when did it begin?</u>**

A: The economic slowdown had its roots in mid-2000. High energy prices, a falling stock market, a dramatic decline in business investment and a deteriorating manufacturing sector contributed to a sharp deceleration in GDP growth from the third quarter of 2000 on. The National Bureau of Economic Research has pegged the start of the recession in March 2001 – 4 months before the bipartisan tax relief package was signed into law. The tax package did not hurt growth, it helped it.

Q: **<u>Did the tax cut cause interest rates to skyrocket?</u>**

A: No. At present, interest rates are close to 40-year lows. This is an important reason why the housing market remains strong, even in the midst of a recession. Federal interest costs as a share of total outlays will fall from 11% last year to less than 9% this year – the lowest share they've been in roughly 20 years. That is, because we've paid down record amounts of debt, our interest costs are lower. As such, it's hard to see where there has been negative effect of tax cuts on interest rates. Indeed, as Chairman Greenspan has noted, last year's tax cuts have had beneficial effects on the economy – they have played a role in moderating the current slowdown.

Q: **<u>You argue that an economic stimulus package is needed. However, even with your assumption of economic stimulus, your economic growth rate assumption is still lower than CBO's. Do you think growth would come in even lower than your assumptions if stimulus does not pass? Why do we need a stimulus if CBO assumes higher growth rates? And hasn't Chairman Greenspan said that we don't need stimulus?</u>**

A: The President has called on Congress to send him a job creation package because he wants to err on the side of protecting America's workers -- he wants to help protect the unemployed and put them back to work. When someone is unemployed, in their eyes the unemployment rate is 100%. Economic risks remain – the job markets remain weak and the growth outlook for our trading partners is poor. Furthermore, Chairman Greenspan has warned that there are risks that any recovery may be more subdued than usual, since we are unlikely to get a substantial acceleration in consumption and housing relative to recent quarters. Passage of stimulus would help to ensure that we don't suffer further unwanted slowdown and would help to invigorate any recovery.

Q: **<u>CBO says your economic plan won't help boost short-term economic growth. Why pursue it?</u>**

A: The only way to create and keep jobs is to pursue policies that have benefits in both the short and long term. CBO did not consider the long-term effects of the President's economic stimulus package or the direct effects of the package on investment and job creation. They only looked at the short-term stimulative effects of certain proposals on consumer demand and the timing of purchases. CBO said explicitly that they did not consider whether such policies would improve the long-term outlook. The budget contains the President's economic stimulus package, which will boost economic growth over the long and short term.

Q: **<u>Aren't the economic assumptions for the President's budget too rosy?</u>**

A: The budget relies on conservative and realistic economic assumptions that reflect the realities of our recovering economy. The budget's economic assumptions are actually more conservative than the average Blue Chip forecasts. We assume the economy will grow at 0.7% for 2002, 3.8% for 2003 and an average of 3.1% over the next 10 years. The average Blue Chip forecast is 1% for 2002 and 4.3% for 2003.

Q: **<u>Were the surplus estimates off last year because your economic assumptions were too optimistic?</u>**

A: Last year, the Administration's economic growth forecasts were in line – indeed, somewhat more pessimistic – than many private forecasters at the time (January 2001.) Of 47 private sector economic forecasts, the Administration was more conservative than 32 of them. The Administration assumed an average 2001/2002 growth rate of 2.9%. This compares with 3.0% for the Blue Chip forecasters. The Administration's forecast was also below the Blue Chip forecasters over the 10-year period.

Q: **<u>You said your revenue estimates were conservative last year and that revenues were more likely to surprise on the upside than the downside. Clearly that wasn't the case. Why?</u>**

A: Recessions lead to a sharp drop-off in government tax receipts due to leaner payrolls and smaller corporate profits. And no one could have predicted the terrorist attacks of September 11. Just like past recessions, our government tax receipts have lagged behind GDP growth by substantial amounts during the current recession.

Q: **<u>How much debt will the federal government repay this year?</u>**

A: The President's previous budget paid down record amounts of debt. The President is committed to reducing government debt, and if Congress spends responsibly, we will return to paying down debt in the near future. However, our economy is in recession, we are at war and we are facing new homeland security challenges. The President's budget addresses these important priorities: to win the war on terrorism, protect our homeland and revitalize our economy.

Q: **<u>Will you tap into Social Security and Medicare to pay for spending? Will seniors' benefits be affected by the recession or by your budget?</u>**

A: Seniors' benefits will not be touched. The President's budget guarantees retirement security for those who count on these important benefits. Social Security and Medicare spending will increase next year and in all years under the President's budget. Social Security and Medicare are mandatory programs, meaning that the government by law must pay all benefits for every senior. The President's budget also strengthens Medicare to better serve seniors by providing $190 billion to modernize Medicare and provide a prescription drug benefit.

Q: **<u>How large a deficit will the President's budget run?</u>**

A: The government will have a small and short term deficit while we mobilize to address three great challenges of our time: winning the war on terrorism, protecting our homeland and revitalizing our economy. The deficit will be less than 1% of GDP – a much smaller percentage than previous recessions, which ranged from 3-6%.

Q: With our budget in deficit, doesn't it make sense to put a trigger mechanism on future tax relief?

A: The best way to guarantee future surpluses is to guarantee future economic growth. The last thing we should do right now is raise taxes on the American people -- delaying the tax relief passed into law last year is a tax increase. Consider, if COLA increases for Social Security were to be delayed, the argument would be made that Social Security benefits are being cut. The tax cut was exactly the right medicine at exactly the right time and will continue to have a positive effect on the economy.

Q: You've talked a lot about job training, but in this budget, aren't there big cuts in job training funds?

A: The budget makes available $9.3 billion in resources for job training in FY 2002 – a 36% increase over FY 2002 spending; The training resources available in 2003 include $5 billion in new budget authority for the Workforce Investment Act, $3 billion in unspent resources from National Emergency Grants, and $1.3 billion in unspent state formula grant resources. These resources could help train at least 500,000 more workers than are expected to seek training in 2002. The budget does consolidate and restructure government programs that have not proven to be effective in getting workers jobs -- decreasing the number of federal programs from 48 to 28. The focus is put on getting results for workers – that is, getting jobs for workers – and millions in waste is removed.

Q: You've stressed the importance of education, yet the Department of Education has virtually no increase in funding. Why?

A: The Department of Education receives a funding increase of $1.378 billion (an increase of 2.8%). The budget funds the historic bipartisan education reform legislation just signed into law this year. The President's budget helps ensure that no child is left behind by providing a historic level of funding for special education ($8.5 billion); boosting funds by $1 billion for low-income students; funding important reading initiatives to ensure that every child can read by the 3rd grade; and providing $10 million for a new initiative to recruit and train library professionals. The Department of Education request builds on the very substantial federal investment in education over the past six years. It is not realistic to expect recent spending growth trends to continue.

Q: Why does this budget cut highway funding?

A: The budget does not cut highway funding. The law passed by Congress sets a funding formula tied to federal gas tax receipts. Since our economy has been in recession, people have been buying less gas and travelling less – therefore gas tax receipts are lower and funds available for highways are lower. The same formula has, over the past few years of economic boom, funded highway construction with more money than expected -- a $1.5 billion increase in 2000, a $3 billion increase in 2001 and a $4.5 billion increase for 2002.

Q: Why did you cut funding for the Environmental Protection Agency?

A: The President's budget contains the highest funding level ever for regulatory, enforcement, and state grant support, the critical component of the agency's environmental protection efforts. The budget gives EPA the largest operating budget ever – the operating budget funds important enforcement and clean-up activities.

Q: What does the budget include for airline security?

A: The President's budget provides $4.8 billion in funding for the new Transportation Security Administration to improve aviation security by hiring 30,000 federal security workers, accelerate deployment of explosive detection systems and other airport security equipment, facilitate airport passenger and baggage inspection, and hire and deploy more Federal Air Marshals. The budget funds tough new security measures to protect our Nation's flying public.

Q: At a time when law enforcement is so important, why does the budget cut COPS grants by a half billion?

A: The COPS program has fulfilled it's mission to put more than 100,000 law enforcement officials on America's streets. The total federal assistance to state and local law enforcement will increase with the creation of the $3.5 billion First Responder program. This program will enable our law enforcement to better respond to local emergencies, crucial in today's changed environment.

Q: **<u>Does the budget fund Social Security reform?</u>**

A: This year has taught us that we need a strong economy to tackle the long-term challenges of financing Social Security. The President is committed to ensuring the long-term solvency of Social Security and will continue to work toward that goal. The President's Social Security Commission recommended that there be a year of debate before enacting legislation to strengthen Social Security for the long term.

Q: **<u>How does running a deficit in the budget restore health to our economy?</u>**

A: Surpluses do not create economic growth. Economic growth creates surpluses. The President has proposed an economic security plan to get Americans back to work and jump-start our economy. This budget also strives to return to balance as quickly as possible through responsible growth in federal spending.

Q: **<u>Why have you stopped using the 10-year budget forecast?</u>**

A: The events of the last year underscore the difficulty of making reliable budget estimates even one year ahead. These uncertainties should make us cautious as we attempt to formulate our budget projections. It is only in the past 6 years that 10-year budget projections have been used and experience shows that they have been less reliable (NOTE: It would be to our benefit to use 10-year numbers but we chose to use 5-year figures).

Q: **<u>How do you plan to balance the budget by 2005 without raising taxes?</u>**

A: The budget contains an economic stimulus package that will boost economic growth and lead the government back to surplus. Also, responsible increases in federal spending will help ensure the path to a balanced budget.

Q **<u>Does the President's budget continue to fund Head Start?</u>**

A: The President's budget includes a $130 million increase for Head Start. To emphasize the President's commitment to Head Start, he also proposed a task force to improve the program and increase the emphasis on reading.

Q: **<u>Why is the Department of Defense receiving a larger increase in the President's budget than any other agency?</u>**

A: Our Nation's defense is our first priority. Our troops are on the front lines and they deserve the best pay, weapons, housing and support we can give them to ensure that we win the war on terrorism. September 11th also taught us about new and emerging threats to our security. The budget increases spending to transform and modernize our military to meet these new threats.

Q: **<u>How much money will missile defense receive (broadly speaking) in the new Department of Defense budget?</u>**

A: DOD will invest $7.8 billion in ballistic missile defense with the objective of developing the capability to defend the forces and territories of the United States, its allies, and friends against ballistic missile threats.

Q: **<u>What are the provisions in the budget for agriculture?</u>**

A: The President's budget maintains a safety net for farmers and fosters trade expansion for the long-term prosperity of American agriculture. The administration supports and the budget reflects an additional $73.5 billion over a 10 year period for a farm bill. This funding will provide additional farm support payments; increase funding for conservation programs; improve the food stamp program; enable the establishment of risk management savings accounts for farmers and ranchers; and increase support for other USDA programs, including trade, research, and rural development.